

Metropolitan King County Council

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Cheryle A. Broom

King County Auditor

516 Third Avenue, Room W1020
Seattle, WA 98104-3272

(206) 296-1655
TTY/TDD 296-1024

MEMORANDUM

DATE: October 9, 2001

TO: Metropolitan King County Councilmembers

FROM: Cheryle A. Broom, County Auditor

SUBJECT: Study of Current Expense Fund Transfers

Attached for your review is the Special Study of Current Expense Fund Transfers. This study of appropriated transfers from the county's Current Expense (CX) Fund was prompted by council concerns over the number of activities funded in this manner and the justification for them, particularly when sizeable shortfalls in the CX Fund revenues are expected in 2002 and ensuing years.

The purpose of this study was to evaluate the process and general justification by which CX transfers were made. This study did not attempt to question or verify in detail each program component funded through the transfers.

The study reviewed nearly every CX transfer from 1997 to 2001. While we found that the transfers were properly authorized, we observed a wide range of difference in the level of justification for the transfers. Other than the annual budget instructions from the Budget Office, there is no set of guidelines to advise what kind of information departments should submit to justify the transfers.

We recommend that the executive and the council work together to develop and use a shared set of consistent but flexible guidelines or criteria for requesting and approving CX transfer funds.

The Executive's response concurs with the one recommendation, further stating that executive staff will work with council staff to develop guidelines that are sufficiently flexible to address the individual policy objectives of each of the county's operating departments and agencies.

CB:RP:jl:

SPECIAL STUDY

**CURRENT EXPENSE
FUND TRANSFERS**



Presented to
the Metropolitan King County Council
by the
County Auditor's Office

Cheryle A. Broom, CGFM, CIG, King County Auditor
Ron Perry, Principal Management Auditor
Bert Golla, Senior Financial Auditor
Harriet Richardson, Principal Management Auditor

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Abbreviations

CIP	Capital Improvement Program
CX	Current Expense
DCHS	Department of Community and Human Services
DIAS	Department of Information and Administrative Services
DPH	Seattle-King County Department of Public Health
GIS	Geographic Information Services
KCC	King County Code
MMR	Major Maintenance Reserve
PERF	Parks Equipment Replacement Fund
RCW	Revised Code of Washington

REPORT SUMMARY

Introduction

This study of appropriated transfers from the county's Current Expense (CX) Fund, i.e., CX transfers, was initiated at the request of the Metropolitan King County Council and included in the council-adopted 2001 Auditor's Office work program. The study was prompted by concerns over the number of activities funded in this manner and the justification for them, particularly when sizeable shortfalls in the CX Fund revenues are expected in 2002 and subsequent years.

Background

The county council, by its vote, may direct the county executive to transfer moneys from the CX Fund into another fund. The CX Fund is the county's general fund and receives revenues from property and sales taxes.

General Conclusions and Recommendations

As authorized under law, the Metropolitan King County Council approves each year the transfer of approximately \$31 million from the county's CX Fund to other funds.

We reviewed nearly every CX transfer from 1997 to 2001. While we found that the transfers were properly authorized, we noticed that the extent of justification for the transfers varied among agencies and departments. Other than the budget instructions from the Budget Office, there is no set of guidelines to advise what kind of information should be included to justify the expenses.

In addition, the audit staff observed:

- The connection among the funding rationale, public policy, and agency mission was often not explained;
- Historical data was minimal; and
- The feasibility of alternative funding sources may not have been considered.

The study recommends the joint development by the executive and the council of a common set of guidelines or criteria for documenting the justification for future CX transfers. Budget instructions and forms for the development of the 2002 budget requests put a strong emphasis on linking performance measures to agency mission, goals, and business plans. We suggest that kind of information should also be included, as appropriate, as justification for proposed CX transfers.

Study Objectives

The purpose of this study was to evaluate the process and general justification supporting CX transfers. This study did not attempt to question or verify in detail each program component funded through the transfers.

Study Scope

The study scope was limited to the review of most of the CX transfer funds between 1997 and 2001.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

Finding 2-1 (Page 7)**The CX transfer funds were properly authorized.**

Our review found that the CX transfers we sampled were properly authorized by votes of the Metropolitan King County Council. In general, the transfers fell into one of the following types:

- One-time only expenditures that met a need for one or two years;
- Ongoing funding based on council-approved policies, such as programs for youth and capital improvement projects;
- Ones in which funding was carried over to the ensuing year, and unspent balances were expended in a subsequent fiscal period (only allowed for capital projects); and
- Technical adjustments.

CX transfers were authorized through the appropriation process, and budgeted amounts were generally expended. In two cases, however, agencies did not expend amounts budgeted as CX transfers.

Finding 2-2 (Page 8)

The depth of justification and rationale for CX transfers varies from agency to agency.

We found that the justification materials provided by agencies receiving CX transfer funds varied in terms of detail and explanation, and in the type of budget form used to document the transfers.

More often than not, the budget forms identify the use of the CX transfers, but not necessarily the reasons for them. In other words, the documentation explains what was funded, but not necessarily why or for how long.

The budget preparation documents do not require agencies to relate the rationale for proposed CX transfers to their mission, goals, or business plans. Such information would be helpful in understanding how the CX funding will support mission-critical activities in an agency. An exception was the Department of Information and Administrative Services, which used its Strategic Information Technology Plan and its E-Commerce Business Plan to support its CX transfer request of \$1.9 million.

In cases where funding is more consistent from year to year, the underlying policy may be assumed but not necessarily explained in budget documents, other than to say that the council has supported these types of programs over the years.

For individual CX transfers that continue for more than one or two years, only one prior year's funding is documented on the

budget forms. Thus, if historical funding trends exist, they are not evident.

In addition, our compilation of the CX transfers from 1997 to 2001 in this report may be the only existing source of expenditure data that shows on an aggregate and an individual fund basis where the money went over a long period of time. Historical budgeted amounts for the transfers are available in Essbase, the county's budget development database.

It is unclear from reading the justification materials provided by agencies whether any other revenue sources were considered as alternatives to CX funding. We believe it would be helpful to those who review CX transfer requests to know whether any other revenue options such as grants, revenue matching, or fee or penalty increases were analyzed for availability or feasibility. In most cases, alternative sources may not be feasible, but knowing that such options were considered might give greater weight to a request.

KCC 4.08.250 requires that the Major Maintenance Reserve Fund be financed through five specific sources of revenue, but CX transfers have been used as the primary source of revenue for the fund. Two management letters previously issued by the Auditor's Office identified the lack of compliance with the funding requirements.¹ The executive has proposed changes (proposed ordinance 1999-0055.1) to the code regarding funding of the Major Maintenance Reserve Fund, but the council is still reviewing the revisions.

According to the budget instructions for 2002, agencies will submit performance measures for the first time as part of the operating budget process and identify:

¹ Management letters on Major Maintenance Reserve Fund #3421; dated November 17, 1997 and September 15, 1998.

- The core business activity;
- Department/division goals;
- The performance measure;
- The unit of measure (data); and
- The target measure.

Having this type of information for most CX transfer requests would also be helpful in providing a fuller understanding of how activities funded with those CX moneys are critical to an agency's mission, and how their performance can be assessed. In some cases, this information may not be appropriate, for example, when there are technical adjustments.

The budget instructions for 2002 appear to put a strong emphasis on performance measures, but not necessarily as a means for justifying CX transfers.

Finding 2-3 (Page 13)

Other than budget instructions, there is no single set of guidelines or criteria used to justify and evaluate the need for CX transfer requests.

Despite efforts to improve accountability in the budget process, CX transfers appear not to be assessed with the same set of budget tools as agency requested budgets. The fact that transfer justifications presented to us by agencies differed so much indicates a lack of a consistent and rigorous set of guidelines. However, 2002 budget instructions prepared by the Budget Office advise agencies to make "realistic" recommendations for CX reductions and to look first in administrative and overhead costs. They also put an emphasis on linking requests to agency mission, goals, and business plans as well as performance

measures. Therefore, it seems reasonable to expect the same rigor for most CX transfer requests.

The study recommends that the county executive and the county council should consider developing and using a shared set of consistent guidelines or criteria for requesting and approving CX transfer funds. The agreed-upon criteria should be used in the budget development, review, and approval process, as well as for preparing and evaluating supplemental requests.

The criteria or guidelines may include the following:

- A statement of the policy basis for the funding;
- An explanation of the funding history;
- A determination of whether the activities to be funded are core or critical to an agency's mission, goals, and business plan, and whether they demonstrate a public need;
- An explanation of whether alternative sources of funding (e.g., grants, fees, penalties) are feasible; and
- An assessment of how selected performance measures will give an indication of efficiency and effectiveness.

Exceptions to some of these criteria might include one-time only transfer requests and technical adjustments. Funding history and performance measures might not be appropriate for such requests.

AUDITOR'S MANDATE

This study of Current Expense Fund appropriations transfers was conducted by the County Auditor's Office pursuant to Section 250 of the King County Home Rule Charter and Chapter 2.20 of the King County Code. The study was performed in accordance with generally accepted government auditing standards, with the exception of an external quality control review.

1 INTRODUCTION

Background

This study of appropriated transfers from the county's Current Expense (CX) Fund, i.e., CX transfers, was initiated at the request of the Metropolitan King County Council and included in the council-adopted 2001 Auditor's Office work program. The study was prompted by concerns over the number of activities funded in this manner and the justification for them. In addition, there is growing doubt whether the level of transfers made from the CX Fund can be sustained when that fund is expected to have a sizeable shortfall in revenue in 2002 and subsequent years.

The county council, by its vote, may direct the county executive to transfer moneys from the CX Fund into another fund. The CX Fund is within the county's general fund and receives revenues primarily from property and sales taxes.

Study Objectives

The purpose of this study was to evaluate the process and general justification by which CX transfers were made. This study did not attempt to question in detail each program component funded through the transfers.

Study Scope and Methodology

The study scope was limited to the review of most of the CX transfer funds between 1997 and 2000. We examined the justification and history of the expenditures in 22 funds from 1997 to the present. Information about the budgeted transfers for 2001 was reviewed and included as well.

We identified the council-approved fund transfers, and asked the Budget Office and the individual agencies to provide the authority and methodology for each transfer request in the 1997 to 2001 time frame. Agencies were further asked to include any

additional documentation and justification not specifically required by the annual budget instructions issued by the Budget Office.

2 GENERAL FINDINGS AND OVERALL CONCLUSIONS

Summary

Approximately \$31 Million in Annual CX Transfers

As authorized under law, the Metropolitan King County Council approves each year the transfer of approximately \$31 million from the county's Current Expense Fund to other funds. That figure represents six percent of the total CX budget and just over one percent of the total county budget.

We reviewed nearly every CX transfer from 1997 to 2001. While we found the transfers were properly authorized, we noticed that the extent of justification for the transfers varied among agencies and departments. Other than the budget instructions from the Budget Office, there is no set of guidelines to advise what kind of information should be included to justify the expenses requiring transfers of CX funds.

Limited Supporting Documentation Available

In addition, the audit staff observed:

- The connection among the funding rationale, public policy, and agency mission was often not explained;
- Historical data was minimal; and
- The feasibility and availability of alternative funding sources may not have been considered.

Guidelines or Criteria for CX Transfers Should Be Developed

We recommend the joint development by the executive and the council of a common set of guidelines or criteria for documenting the justification for future CX transfers. Operating budget instructions and forms for the development of the 2002 budget requests put a strong emphasis on linking performance

measures to agency mission, goals, and business plans. We believe that kind of information should also be included as justification for proposed CX transfers, as applicable.

Background

Legal Basis for CX Transfers

State law authorizes counties to establish current expense funds:

“Every county shall maintain a current expense fund to which shall be credited all taxes levied for that purpose and all fees collected, fines assessed, and forfeitures adjudged in the county the proceeds of which have not been specifically allocated to any other purpose.”

(RCW 36.33.010)

Counties, through their legislative bodies, may also transfer such funds. (RCW 36.40.100)

County ordinance identifies the Current Expense Fund and designates the Budget Office as fund manager. (KCC 4.08.025) Further, ordinance establishes an overhead cost allocation policy:

- “A. The current expense fund may allocate costs to other county funds if it can be demonstrated that other county funds benefit from services provided by current expense funded agencies.
- B. Wherever possible, the current expense cost to be allocated shall equal the benefit received by the county fund receiving the charge.” (KCC 4.04.045)

Budget Context for CX Transfers

The county budget for 2001 is approximately \$2.2 billion. Of that amount, nearly \$500 million comes from the CX (general) Fund. Transfers from the CX Fund are budgeted at \$31 million and constitute six percent of the total CX budget.

King County's CX Fund pays for portions of the regional justice system, parks, social services, and some general government costs. For the year 2002, the fund is expected to experience a revenue shortfall in excess of \$39 million.

CX transfers between 1997 and 2001 peaked at a little less than \$43 million in 1998 and have been approximately \$31 million a year since then, as shown in Exhibit A below.

EXHIBIT A Total Current Expense Fund Transfers, 1997-2001	
Year	Total
1997	\$29,655,566
1998	\$42,673,195
1999	\$31,165,212
2000	\$31,266,121
2001 (budgeted)	\$30,896,406

SOURCE: 14th Month ARMS Reports

Funds We Examined

The audit staff examined 22 funds that received CX transfer funds during the period 1997 to 2001. In some cases, funding occurred only once or twice in those years, but the preponderance of the dollars went to agencies on a fairly regular basis.

Exhibit B shows the funds and the amounts they received.

Appendix 1 provides explanations for each fund.

EXHIBIT B					
CX Transfer Amounts for 22 Funds, 1997-2001					
Description	1997	1998	1999	2000	2001 (Budget)
<i>Operating Funds</i>					
Budget Office/Criminal Justice					115,058
Developmental Disabilities	2,780,577	2,781,134	2,945,040	378,535	472,921
Mental Health	309,726	308,950	421,950	386,291	453,172
Arts and Cultural Development					
Emergency Medical Services	375,000	8,000,000	375,000	375,000	375,000
Alcoholism			1,233,824	1,369,874	1,513,975
Dept. of Development and Environmental Services	4,819,958	4,505,996	4,250,626	4,010,549	3,640,700
Public Health Pooling	12,988,270	13,313,043	11,800,623	15,205,618	14,991,488
Parks Equipment Replacement Fund		364,469			
Work Training Program	963,623	1,089,570	1,127,709	1,129,711	888,702
Housing Opportunity		3,910,000	3,410,000	2,954,757*	3,092,438
Solid Waste Operating					
Airport Operating		137,500	73,686		
Employee Benefits				171,152	148,408
Dept. of Construction and Facilities Management – Internal Service Fund			161,248	2,120,329	21,038
Information Resource Council Funded Projects					1,897,555
Motor Pool			368,833		
Sample Subtotal	22,237,154	34,410,662	26,168,539	28,101,816	27,610,455
Subtotal - All Operating Funds	23,768,792	38,061,209	26,637,770	28,691,113	27,497,207**
<i>Capital Funds</i>					
Department of Construction and Facilities Management Capital Improvement Program Projects:					
• Parks, Recreation, and Open Space Acquisition and Development	740,714	50,741	68,409	9,697	29,776
• Parks Facility Rehabilitation	484,648	214,366	53,084	47,292	
• Building Repair and Replacement	673,837	619,880	332,344	758,515	2,137,734
Major Maintenance Reserve	3,845,575	3,726,999	4,073,605	4,714,261	1,231,689
Technology Improvement	42,000				
Sample Subtotal	5,786,774	4,611,986	4,527,442	5,529,765	3,399,199
Subtotal - All Capital Funds	5,886,774	4,611,986	4,527,442	5,529,765	3,399,199
SAMPLE TOTAL	28,023,928	39,022,648	30,695,981	33,631,581	31,009,654
SAMPLE AS PERCENTAGE OF TOTAL	95%	91%	98%	98%	100%
TOTAL	29,655,566	42,673,195	31,165,121	34,220,878	30,896,406**

Notes: *14th month expenditure; **2001 Budget – Includes -\$113,810 Expenditure Contra

SOURCE: 13th Month ARMS Reports

FINDING 2-1**THE CX TRANSFER FUNDS WERE PROPERLY AUTHORIZED.****Properly Authorized Transfers Occurred**

Our review found that the CX transfers we sampled were authorized by votes of the Metropolitan King County Council. In general, the transfers fell into one of the following types:

- One-time only expenditures that met a need for one or two years;
- Ongoing funding based on council-approved policies, such as programs for youth and capital improvement projects;
- Ones in which funding was carried over to the ensuing year, and unspent balances were expended in a subsequent fiscal period (only allowed for capital projects); and
- Technical adjustments.

We found that the CX funds we reviewed were properly authorized through the appropriation process, and budgeted amounts were generally expended. On two occasions, minor amounts were budgeted but not expended.

Examples of the Types of Transfers

- **One-time only expenditures.** The council authorized a CX transfer of \$1,897,555 in 2001 for various technology upgrades, such as software licensing, personal computers, and e-commerce.
- **Ongoing funding.** Approximately \$1 million a year is transferred to the Department of Community and Human Services for youth employment programs.
- **Carry-over funding.** About \$5 million of CX money is transferred to Capital Improvement Program. Because several projects are funded and their schedules cross over fiscal periods, these funds may be retained in a fund balance and spent in an ensuing year (or years). The Housing Opportunity Fund also operates like this since it funds the

construction of residences for disadvantaged and disabled people.

- **Technical adjustments.** These types of transfers are uncommon, but they occur when a technical error in the budget process is discovered, and an adjustment is made after the fact. Such was the case of a \$115,000 transfer to Criminal Justice for supplies and general operations and maintenance costs.

RECOMMENDATION

None.

FINDING 2-2
THE DEPTH OF JUSTIFICATION AND RATIONALE FOR CX TRANSFERS VARIES FROM AGENCY TO AGENCY
Depth of Documentation Varies Considerably

Early in the course of our study, we requested the agencies that received CX transfer funds to provide us with both budget preparation documents and any other justification they deemed appropriate to explain the rationale for the transfers under review.

We found that the materials we received varied greatly in terms of detail and explanation, and the type of budget form used to document the transfers.

Agencies gave us one or more of the budget preparation documents that are used primarily for documenting requested transfers.

- The 3A form, Revenue Estimate Summary, shows the amounts for one prior year, the current year, and the projection for the new fiscal period.
- The 3B form, Revenue Estimate Detail, can provide information about the CX transfer as a source of funding. Details to be provided include: (1) variables which affect

collection; (2) basis of revised estimate and request; and (3) estimates showing the same information included in the 3A form.

- The 3C form, New Revenue Detail, is similar to the 3B form except that it is to be used when there is no prior history of funding from CX.
- The 3D form is the CX Transfer Detail. Although it is supposed to include detail about the purpose of the transfer and the basis for the request, no detail funding information from prior years is required; instead, only the current year's approved/budgeted amount is included.

Often 3D budget forms were not provided to us or did not explain an expenditure's justification.

We noted that one reason why some required budget forms were not provided to us was that the recipient agencies of the CX transfers were not aware that there were budgeted amounts for their agencies. There were no actual CX transfers made, and the budgeted amounts involved were not significant. Examples are: The Arts and Cultural Development Fund had a one-time CX transfer budget of \$60,961 in 1991, and the Solid Waste Fund had a one-time CX transfer budget of \$15,585 in 1998.

Forms Identify Use of CX Transfers but Not Rationale

More often than not, the budget forms identify the use of the CX transfers, but not necessarily the reasons for them. In other words, the documentation explains what was funded, but not necessarily why or for how long.

For example, the Public Health Department provides several pages of detail on its CX transfers (on Form 3D). The stated rationale is to support full or partial funding of public health programs. Similarly, about \$400,000 in funding for youth programs in the Mental Health Division is explained as funding

for services that may not be supplanted with state funds. By contrast, about \$1.7 million for youth services in the Work Training Program are based on the need to meet federal matching requirements and pay for administrative costs not fully covered under federal contracts.

**Connection Among
Funding Rationale,
Policy, and Agency
Mission Often Not
Explained**

The budget preparation documents do not require agencies to relate the rationale for proposed CX transfers to their mission, goals, or business plans. Such information would be helpful in understanding how the CX funding will support mission-critical activities in an agency. An exception was the Department of Information and Administrative Services, which used its Strategic Information Technology Plan and its E-Commerce Business Plan to support its one-time CX transfer request of \$1.9 million in 2001.

The 3D budget forms for CX transfers do not require agencies to explain the policy basis for the expenditures, and many agencies provided none to us as justification or explanation. For some CX transfers, such as those for capital improvement projects, the policy basis may be clear in that projects are identified and the council gives its assent to funding them. For other transfers, where funding is more consistent from year to year, the underlying policy may be assumed but is not necessarily explained, other than to say that the council has supported these types of programs over the years.

**Historical Data Is
Minimal**

For CX transfers that continue for more than one or two years, only one prior year's funding is documented on the budget forms. Thus, those who review the budget requests are less able to see the trends in those expenditures over a four- or five-year period. Our compilation of the CX transfers from 1997 to 2001 in this report may be the only existing source of expenditure data that shows on an aggregate and an individual fund basis where the

money went over a long period of time. Historical budgeted amounts for the transfers are available in Essbase, the county's budget development database.

Certainly, total amounts only tell part of the story. For example, transfers for overhead costs in Developmental Disabilities amounted to about \$3 million a year until the Children and Family Commission was transferred to the Office of Regional Policy and Planning, and the Director's Roundtable was discontinued. Thereafter, funding dropped to under \$400,000 a year.

**Are Alternative
Revenue Sources
Considered?**

It is unclear from reading the justification materials provided by agencies whether any other revenue sources were considered as alternatives to CX funding. We believe it would be helpful to those who review CX transfer requests to know whether any other revenue options such as grants, revenue matching, or fee or penalty increases were analyzed for feasibility. In most cases, alternative sources may not be feasible, but knowing that such options were considered might give greater clarity to the decision.

KCC 4.08.250 requires that the Major Maintenance Reserve Fund be financed through five specific sources of revenue, but they generally have not been used. The fund received a one-time appropriation of \$1.96 million from the state's 1993 Initiative 62 settlements, which is one of the five funding sources identified in the code. Although not one of the five revenue sources specifically identified in the code, the primary funding source since the fund was established in 1994 has been CX transfers from sales tax receipts.² The lack of compliance with the funding requirements for the Major Maintenance Reserve Fund was

² These are sales tax revenues that exceed the amount necessary to maintain a \$15 million reserve in the CX Sales Tax Reserve Subfund.

addressed in two management letters previously issued by the Auditor's Office.³ In response to the Auditor's Office recommendations, the executive proposed changes to the code regarding the fund's reserves, financing methods, and expenditure guidelines (proposed ordinance 1999-0055.1); however, the council is still reviewing the revisions.

**Performance Measures
May Help to Justify**

Agencies will submit performance measures for the first time as part of the operating budget process. Form 1, Page 3 (Performance Measurement Data Reporting Form) goes beyond the list of workload indicators on the first page of the form. This form identifies:

- The core business activity;
- Department/division goals;
- The performance measure;
- The unit of measure (data); and
- The target measure.

The operating budget instructions for 2002 appear to put a strong emphasis on performance measures, but do not specifically require them as a means for justifying CX transfers.

Having this type of information for CX transfer requests would also be helpful in providing a fuller understanding of how activities funded with those CX moneys are critical to an agency's mission, and how their performance can be assessed.

We acknowledge that it may not be necessary or appropriate to provide this kind of information for every CX transfer request. However, in many of the funds we reviewed, such information would be useful for explaining the need and justification for a transfer.

³ Management letters on Major Maintenance Reserve Fund #3421; November 17, 1997 and September 15, 1998.

RECOMMENDATION	None.
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FINDING 2-3**OTHER THAN BUDGET INSTRUCTIONS, THERE IS NO SINGLE SET OF GUIDELINES OR CRITERIA USED TO JUSTIFY AND EVALUATE THE NEED FOR CX TRANSFER REQUESTS.**

Despite efforts to improve accountability in the budget process, CX transfers appear not to be subjected to the same rigor nor assessed with the same set of budget tools as agency requested budgets. Other than the budget instructions and forms, there is no single set of guidelines or criteria for presenting, explaining, and justifying the transfers. The fact that transfer justifications presented to us by agencies differed so much indicates a lack of a consistent review process for CX transfers.

However, 2002 budget instructions prepared by the Budget Office advise agencies to make “realistic” recommendations for CX reductions and to look first in administrative and overhead costs. “If reductions cannot be made in overhead, departments should consider (consistent with business plan priorities) elimination of entire programs ahead of across-the-board cuts in multiple programs.”⁴

Because the budget instructions appear to put an emphasis on linking requests to agency mission, goals, and business plans as well as performance measures, it seems reasonable to expect the same procedure for most CX transfer requests.

RECOMMENDATION

2-3	The county executive and the county council should consider developing and using a shared set of consistent guidelines or
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⁴ 2002 budget instructions, page six.

criteria for requesting and approving CX transfer funds. The agreed-upon criteria should be used in the budget development, review, and approval process, as well as for preparing and evaluating supplemental requests.

The criteria or guidelines may include the following:

- A statement of the policy basis for the funding;
- An explanation of the funding history;
- A determination of whether the activities to be funded are core or critical to an agency's mission, goals, and business plan, and whether they demonstrate a public need;
- An explanation of whether alternative sources of funding (e.g., grants, fees, penalties) are feasible; and
- An assessment of how performance measures give an indication of efficiency and effectiveness.

Exceptions to some of these criteria might include one-time only transfer requests and technical adjustments.

APPENDICES

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APPENDIX 1

EXPLANATION OF CX TRANSFERS 1997-2001

Audit staff requested justification and other explanatory information from agencies that received CX transfer funds during the period 1997-2001. Included in this appendix is a summary of the detailed explanations compiled by the Auditor's Office.

The explanations are arranged in the same order as the funds and fund amounts displayed in Exhibit B on page six of this report.

Summary of Explanations - CX Transfers, 1997 - 2001	
Program/Fund	Rationale
<u>Operating Funds:</u>	
Budget Office/Criminal Justice	This was a one-time only technical adjustment for 2000 budget.
Developmental Disabilities – Dept. of Community and Human Services (DCHS)	The transfer funds overhead for director's office. A majority of the money went to the Children and Family Commission, which was transferred to the Office of Regional Policy and Planning after 1999. There is no longer a CX transfer for this item. After removal of the Children and Family Commission, CX transfer funding dropped from \$3 million to \$385,000.
Mental Health – DCHS	Funding covers youth programs supported by the council. Some one-time only costs occurred in 1999 and 2000.
Arts and Cultural Development – Office of Cultural Resources	This was a one-time budget of \$60,961 in 1999, but no expenditure was made. Agency was not aware of the CX transfer budget.
Emergency Medical Services – Department of Public Health (DPH)	\$375,000 is approved every year, through 2007, for South County Emergency Medical Services not otherwise funded by a municipality. The 1998 increase occurred after a levy failure.
Alcoholism (DCHS)	The agency was part of Public Health in 1997 and 1998. Funding supplements federal and state moneys. Assessment and treatment dollars (e.g., triage, sobering) were approved by the council. The overall amount increased in 2001.
Department of Development and Environmental Services	CX transfers generally fund non-fee supported activities, including code enforcement and arson investigations. The transfers that supported the Geographic Information System (GIS) will be eliminated in 2002 as a result of the executive branch reorganization. Other CX transfer expenditures have already been eliminated (e.g., Intake and Screening).

APPENDIX 1 (Continued)

Summary of Explanations - CX Transfers, 1997 - 2001	
Program/Fund	Rationale
Public Health Pooling – DPH	<p>For the most part, funding covers broad public health mandates. Costs of the public health laboratory have continued to increase, although a 1996 audit suggested that some or all of the laboratory's work could be performed by other public and private laboratories. Additional justification from the Public Health Department for laboratory expenditures is still pending.</p> <p>CX transfer dollars are projected to decrease in 2002. CX transfer dollars as a percentage of the total Public Health budget have declined from 10.5% in 1997 to 8% (est.) in 2002. From 1997-2002, the total Public Health budget will increase by 34%, CX transfer funding by 3% (not adjusted for constant dollars).</p>
Parks Equipment Replacement Fund (PERF) – Dept. of Parks and Recreation	The PERF was closed in 1999. The Parks Department fleet was transferred to the motor pool in the Fleet Administration Division of the Department of Transportation, and the replacement costs are now included in the rental rates charged, eliminating the need for CX transfers.
Work Training Program – DCHS	Funding covers council-initiated programs for youth. Reductions occurred in most programs in 2001.
Housing Opportunity – DCHS	This transfer acts more like a capital fund to build housing for disabled, mentally ill, and disadvantaged individuals. CX money is used instead of the real estate excise tax. Funding builds housing for disabled and disadvantaged individuals and is operated by the agency responsible for the construction.
Solid Waste Operating – Dept. of Natural Resources	There was a one-time CX transfer budget of \$15,585 in 1998, but no expenditure. Agency was not aware of the CX transfer budget.
Airport Operating – Dept. of Construction and Facilities Management (DCFM)	CX transfers were to support the International Trade Program. This program was subsequently eliminated.
Employee Benefits – Office of Human Resource Management	CX transfers were to support term-limited temporary positions to complete the liability analysis for the Public Employees Retirement System for eligible current and terminated employees. The CX transfer of \$171,152 exceeded project expenditures of \$151,933 in 2000.
Department of Construction and Facilities Management Internal Service Fund	CX funded costs associated with the transfer of Dept. of Youth Services to Dept. of Adult Detention. The costs included operations and maintenance expenses, collective bargaining agreements, utility cost increases, and retirement costs. The 2001 amount will not be collected and is not owed to this fund.
Information Resource Council Funded Projects – Dept. of Information and Administrative Services (DIAS)	CX transfers are based on approval of individual projects. It is a council policy decision to fund these projects.

APPENDIX 1 (Continued)

Summary of Explanations - CX Transfers, 1997 - 2001	
Program/Fund	Rationale
Motor Pool – Dept. of Transportation	The Fleet Administration Division in the Department of Transportation received the CX transfer that was budgeted to PERF in 1999. See PERF above.
<u>Capital Funds:</u>	
Capital Improvement Program (CIP) Projects – DCFM	The CIPs support the acquisition and development of parks, recreation facilities, and open space; rehabilitation of park facilities; and repair and replacement of county buildings. CX transfers are based on council approval of individual projects. It is a council policy decision to fund each project.
Major Maintenance Reserve – DCFM	All sales tax revenue in excess of the amount needed to maintain a \$15 million balance in the Sales Tax Reserve Subfund is transferred to the Major Maintenance Reserve (MMR) Fund to support ongoing major maintenance requirements for county-owned buildings and grounds. Projects within the program are managed as capital improvement projects by the Department of Construction and Facilities Management. The minimum fund balance for the MMR Fund is \$1 million but is required to be systematically increased in anticipation of a significant outlay of funding during the later years of the six-year capital planning cycle. The fund balance generally exceeds the \$1 million minimum to meet the capital planning cycle requirement. All of the funds allocated to a project are often not spent in the year allocated since projects often require more than a year to complete. It is a council policy decision to fund these projects.
Technology Improvement – DIAS	This one-time transfer supported Information technology enhancements (e.g., enterprise license and personal computer replacements) as approved by council.

SOURCE: Department responses to the King County Auditor's Office's request for information regarding CX transfers.

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APPENDIX 2

EXECUTIVE RESPONSE



King County Executive
RON SIMS

September 20, 2001

Cheryle A. Broom
King County Auditor
Room 1020
COURTHOUSE

RECEIVED

SEP 20 2001

KING COUNTY AUDITOR

Dear Ms. Broom:

Thank you for the opportunity to review and respond to your preliminary draft report of the Special Study of Current Expense (CX) Fund Transfers. The study was accomplished to evaluate the process and general justification by which CX transfers were made.

We are pleased by your study's conclusion that CX transfers have been properly authorized by the Metropolitan King County Council. As you point out in your report, the transfer of CX funds is done to accomplish a variety of one-time and recurring purposes. Accordingly, the justification for each transfer is carefully considered by the Executive and the Council at the time it is proposed and approved. Our consideration includes examination of the availability of other funding sources before we commit CX funds.

Your report recommends that we work cooperatively with the Council in developing and using a shared set of consistent guidelines or criteria for requesting and approving CX fund transfers. We concur in that recommendation and Executive staff will work with Council staff to develop guidelines that are sufficiently flexible to address the individual policy objectives of each of the county's operating departments and agencies.

Sincerely,

Ron Sims
King County Executive

cc: Steve Call, Director, Office of Budget (OB)
Debora Gay, Deputy Director, OB
Paul Tanaka, Chief Administrative Officer
Bob Cowan, Director, Department of Finance
David Lawson, Manager, Executive Audit Services

KING COUNTY COURTHOUSE 516 THIRD AVENUE, ROOM 400 SEATTLE, WA 98104-3271
(206) 296-4040 296-0194 FAX 296-0200 TDD E-mail: ron.sims@metrokc.gov

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REPORTS BY THE KING COUNTY AUDITOR'S OFFICE

1985 - 1993

- 1985** Alcoholism and Substance Abuse Services Division
Receivables (F)
Test of Real Property Tax Systems Computer Files (F)
Budgetary Staffing Standards (M)
Police Overtime Usage and District Court Scheduling (S)
Roads CIP Budgeting and Staffing Practices Follow-Up (M)
Insurance Fund (F)
King County International Airport (F)
Equipment Management/Utilization, Maintenance, &
Replacement Practices (M)
- 1986** Business License Inspection Practices (M)
County Gasoline Contract (M)
Parks Maintenance (M)
Collective Bargaining Agreements (M)
Finance Office Cashiering (M)
Risk Management (M)
H&CD Housing Loans Administration (F)
Public Defense Program Fund Balance Levels (F)
King County Reporting of State Excise Tax (F)
Department of Public Safety, Financial and Personnel
Administration (S)
- 1987** Harborview Medical Center Master Plan and CIP (M)
Jail Intake, Transfer, and Releases (M)
County Airport Historical Funding (F)
County Airport Operations (M)
Motor Pool Financing (S)
Meat Inspection Program (M)
- 1988** Accounts Payable (F)
Public Health Pooling Fund (S)
DPH Financing Provisions of 1984 Interlocal Agreement (S)
District Courts Time-Pay Collections Clerks (S)
Political Contributions by Charitable Organizations (S)
Surplus Personal Property (F)
Solid Waste Cashiering (F)
Project Management Cost Allocation Procedures (F)
Court Services (M)
Natural Resources and Parks Division Rental Houses (S)
M/WBE Utilization Requirements for Financial Services
Contracts (S)
DPH, County Funded Community-Based Health Clinics
and WIC Program (S)
Court Detail, Operation and Staffing (M)
Jail Classification Services (M)
Restaurant Inspection Program (M)
- 1989** Audit Coverage in King County Government (S)
Real Property Records (M)
Solid Waste Accounts Receivable (F)
Department of Public Health Car Rental (S)
Records Management (S)
Department of Public Health, Computer System
Planning and Development (S)
Performa '87 (F)
Parks Capital Improvement Program (M)
1988 Consultant Selection Processes for Harborview
Capital Projects (S)
- 1990** Jail Intake, Transfer and Release -- Workload, Operations
and Staffing (M)
Arbitrage Rebate Requirements on Tax-Exempt Bonds (F)
Conservation Futures (F)
Real Property Sale, Lease & Exchange Practices (M)
Youth Services (M)
Office of Civil Rights & Compliance (M)
Criminal Investigations & Special Operations (M)
Business and Occupation and Public Utility Taxes (F)
Earthquake Preparedness (M)
District Courts and Warrants Division Revenues (S)
State Auditor Use of County Facilities and Equipment (S)
Department of Youth Services Health Program (M)
Code Enforcement Program Building and Land
Development Division (M)
Assigned Take Home Vehicles and Agency-Paid Parking (S)
- 1991** Carpentry Shop (F)
County Fuel Station Internal Controls (F)
County Agency Performance Monitoring Survey (S)
King County Elections Practices (M)
King County Purchasing Agency (M)
Farmlands and Open Space Preservation Program (M)
King County Detoxification Center (M)
Dept. of Public Safety Field Training Officer Program (S)
- 1992** King County Office of Emergency Management (S)
King County Dept. of Stadium Administration Revenues (F)
Environmental Health Charges to Solid Waste (S)
Sierra PERMITS Automation System (M)
King County Office of Human Resource Management (M)
BALD Financial Guarantee Administration (M)
Northshore Youth and Family Services (F)
Dept. of Youth Services Drug & Alcohol Program (M)
Dept. Adult Detention & Youth Services Overtime (S)
SEPA Revenues and Accounts Receivable (F)
Methodology for Funding Legal Services for Non-Current
Expense Fund Agencies (S)
Accounts Payable (F)
Solid Waste Equipment Replacement Practices (M)
- 1993** Dept. of Development and Environmental Services Assigned
Vehicles (M)
Certificate of Occupancy Process (M)
Collection of Civil Penalties and Recovery of Abatement
Costs (F)
DDES Field Inspection Function (M)
Police Overtime for Court Appearances (M)
Dept. of Youth Services Sex Offender Unit and Special Sex
Offender Dispositional Alternative Program (M)
Office of Open Space Financial Administration (M/F)
Collection Enforcement Section (S)
Cellular Phones (S)
Surface Water Management Service Charges (F)
Acceptance of Special Waste at County Landfills (S)
Solid Waste Division Internal Controls for Handling and
Storage of Parts, Fuel, and Other Operating Supplies (F)

REPORTS BY THE KING COUNTY AUDITOR'S OFFICE

1994 - PRESENT

- 1994** Span of Control (S)
Community Diversion Program (M)
Dept. of Development & Environmental Services Reduction-In-Force Process (S)
Cedar Hills Alcohol Treatment Facility (CHAT) Accounting Procedures and Staffing Levels (M)
DDES Fire Marshal's Office Fire Investigation Unit (S)
DDES Accounts Receivable (F)
Travel Expenses and Credit Card Use (M/F)
Services & Treatment Alternatives for Developmentally Disabled Offenders Incarcerated in the King County Correctional Facility (M)
Board of Appeals and Equalization (S)
Surface Water Management Non-Construction CIP Costs (S)
Tracking and Reporting on Lawsuits Involving King County (S)
Jail Overtime Study Follow-Up (S)
- 1995** Dept. of Metropolitan Services Temporary Contract Workers (M)
King County Purchasing Practices & Supply Contract Prices (M)
Sewage Facilities Capacity Charge (F)
Audit Recommendation Implementation (S)
Dept. of Metropolitan Services Professional Services Contract (M)
Human Services Dept. Monitoring of Contract Compliance (F)
Biomedical Waste Regulation Enforcement (S)
Customer Service Motion Survey (S)
County Fair Financial & Contract Management (F/M)
Supported Employment Program (M)
- 1996** Dept. of Metropolitan Services West Point & Renton Wastewater Treatment Facilities (C)
1990 Code Enforcement Audit Follow-Up (M)
Dept. of Metropolitan Services Compensatory Time Policies, Procedures, and Practices (S)
King County Women's Program (M)
Cultural Programs (Hotel/Motel Tax Distribution) (F/M)
Investment Management (F)
King County Road Construction Fund and Capital Improvement Program (M)
Emerging Infectious Diseases and Laboratory Operations (M)
DUI Offender Program (M)
King County Real Property Acquisition Practices (M)
Seattle-King County Dept. of Public Health (SKCDPH) Immunization Program (M)
- 1997** King County Methadone Treatment Programs (M)
Criminal Justice-Funded Department of Public Safety Staffing (S)
Permit Fee Waivers (M)
Animal Control Section Collection Practices and Interlocal Services (F)
King County Contract for Sobering Services (S)
Office of Civil Rights Enforcement Case Management (S)
Neighborhood Drainage Assistance Program (S)
Surface Water Management Program (S)
Motor Pool (S)
Information and Telecommunications Services (M)
- 1998** Automated Telephone Systems (S)
Interlocal Agreements & Public Agency Contracts (S)
Review of Selected Capital Project Funds (S)
Metro Tunnel Rail Installation Process (M)
Road Maintenance Contracts (F)
ITS Infrastructure Operating and Maintenance Costs (F)
- 1999** Information Technology Planning, Development, and Implementation Processes (M)
East Lake Sammamish Trail (S)
Bond Funded Capital Improvement Projects (F)
King County Traffic Volume Forecast Model (S)
Jail Overtime (S)
Transit Management (C)
Disposition of Firearms (S)
Metro Transit Vehicle Maintenance Operations (M)
Employee Benefits (C)
Risk Management (C)
- 2000** Audit Recommendation Implementation (S)
Sheriff's Office Overtime (M)
Office of Human Resources Management Hiring Practices (M)
Columbia Public Interest Policy Institute (M)
King County Permit Processes and Practices (M)
School Impact Fees (S)
Scale Operator Injury Claims (M)
Parks Department Span of Control (S)
- 2001** Take-Home Vehicle Policies and Practices (M)
Vanpool Replacement and Surplus Practices (M)
Pacific Medical Center Interlocal Agreement (S)
Grading Enforcement at Palmer Junction Gravel Pit (P)
Institutional Network (I-Net) Project (F)
Financial Systems Replacement Program (C)
Current Expense Fund Transfers (S)
- (C) Audit/Study conducted by consultants
(F) Financial Audit
(M) Management Audit
(P) Performance Audit
(S) Special Study

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